



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

March 26, 1998

UNDER SECRETARY

The Honorable Eugene A. Ludwig
Comptroller of the Currency
250 E Street, S.W.
Washington, D.C. 20219

Dear Gene:

Congress has directed that after January 1, 1999, most federal payments be made by electronic funds transfer (EFT). The new law, sometimes referred to as "EFT '99," requires recipients of federal payments to designate a financial institution or other authorized agent to receive such payments. The Treasury Department has a rulemaking proceeding in progress to implement this directive.

In anticipation of the move to mandatory EFT for most federal payments, some federally insured depository institutions have entered into, or have announced plans to enter into, arrangements with non-depository providers of payment services, such as check cashers or money transmitters. Such arrangements may involve giving recipients access to EFT deposits in their insured accounts through the uninsured third-party provider. While such arrangements could provide recipients with an expanded range of alternatives for payment services, they also raise the possibility that recipients would not clearly understand the fee structures involved, the legal nature of the relationship, or the other options available under the EFT '99 regulation.

In our view, an insured depository institution should provide appropriate disclosures to customers when it participates in arrangements with third-party providers of payment services. Such disclosures should fully and fairly convey information about the fees and costs imposed by all of the parties to the arrangement, as well as the legal relationships involved, and should explain the applicability of federal deposit insurance insofar as it is relevant to the arrangement. In addition, disclosures should be framed so as not to mislead recipients as to the requirements of EFT '99.

We take these concerns seriously. In the future, we may consider rulemaking in this area. In order to let insured depository institutions know how important we think this issue is, I am asking that you forward a copy of this letter to the appropriate executives at the institutions you regulate.

Thank you for your assistance in this effort.

Sincerely,

John D. Hawke, Jr.

Under Secretary for Domestic Finance